

PHILIPPINES ECONOMIC & FINANCIAL WRAP-UP

SEPTEMBER 22 - OCTOBER 05, 2001

----- Summary -----

The peso generally depreciated over the past two trading weeks of September 24 - October 5, which traders partly attributed to weaker regional currencies. Meanwhile, Treasury bill rates increased across all maturities during the September 24 and October 1 primary auctions, while the Philippine stock price index drifted further to new three-year lows. We also report on the latest export figures -- which showed Philippine export revenues down 25.8% year-on-year in August, following through successive declines since February 2001. On a more positive note, President Macapagal-Arroyo signed an anti-money laundering law on the eve of the September 30 deadline set by the Financial Action Task Force. Year-on-year consumer price inflation also slowed to 6.1% in September (a ten-month low), and the Philippines and the U.S. recently forged a bilateral agreement which will allow the Philippines to ship out hazardous wastes to the United States. End Summary.

These weekly reviews are available on the Embassy's web site (<http://usembassy.state.gov/manila>). Our next update will be submitted on or about October 19. We provide a longer and more detailed review of the Philippine economy in our thrice-yearly Philippine Economic Outlook, which is also available on our web site.

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FOREX REPORT

The peso traded in the P51.24-P51.40/US\$ range most of September 24-28 and slipped to a weaker P51.35-P51.61/US\$ trading band during October 1-5. Traders said that weakening regional currencies, month- and quarter-end commercial demand, and limited new foreign exchange inflows exerted downward pressure on the Philippine currency. Rumors persisted that the peso would have been weaker were it not for intermittent Bangko Sentral ng Pilipinas (BSP, central bank) foreign currency sales in the inter-bank foreign exchange market. The peso closed at P51.57/US\$ on October 5 -- 0.7% weaker than its closing level two Fridays ago (i.e., P51.23/US\$ on September 21).

Exchange Rate Tables

Date	Weighted Average (Pesos/US\$)	Closing (Pesos/US\$)	Volume (Million US\$)
	-----	-----	-----
AUG 27	51.176	51.130	113.0
28	51.106	51.200	59.4
29	51.207	51.190	90.3
30	51.210	51.215	55.5
31	51.017	50.935	107.5
SEP 03	51.005	51.040	72.5
04	51.078	51.150	107.0
05	51.216	51.170	77.5
06	51.311	51.335	96.0
07	51.345	51.380	77.2
SEP 10	51.285	51.230	75.0
11	51.299	51.300	89.0
12	51.180	51.230	32.3
13	51.269	51.280	74.0
14	51.258	51.300	39.5
SEP 17	51.206	51.260	60.5

18	51.375	51.370	81.5
19	51.393	51.400	73.5
20	51.373	51.290	81.5
21	51.268	51.230	19.5
SEP 24	51.194	51.185	104.8
25	51.282	51.240	68.1
26	51.289	51.340	88.3
27	51.355	51.365	94.4
28	51.348	51.320	73.0
OCT 01	51.371	51.400	61.0
02	51.580	51.600	113.0
03	51.598	51.575	95.6
04	51.587	51.540	98.7
05	51.532	51.565	66.5

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

All T-bill maturities inched up during the Treasury Bureau's weekly (Monday) primary auctions on September 24 and October 1. The benchmark 91-day Treasury bill (which had averaged 9.467% on September 17) had increased by a cumulative 26.3 basis-points to 9.730% by October 1. Rates for the 182 and 364-day bills also moved up after softening for two successive auctions. The average rate for the 182-day bills increased by a total 31 basis-points between September 17 (11.629%) and October 1 (11.939%). Average rates for the 364-day bills increased by 12.5 basis-points from 12.544% on September 17 to 12.669% on September 24, and the Treasury rejected all bids for the 364-day bills as "too high" during the government's October 1 auction. Treasury officials attributed the higher bids to the Philippine Monetary Board's decision to adopt a neutral interest rate stance despite a 50 basis-point rate reduction by the U.S. Federal Reserve Open Market Committee (FOMC).

The Philippine Monetary Board eventually slashed Bangko Sentral ng Pilipinas (BSP, central bank) overnight rates by 25 basis-points effective October 5, following another 50 basis-point reduction by the U.S. FOMC in early

October and release of lower Philippine inflation numbers for September. This represents the first BSP interest-rate cut since May 2001 and may give Treasury rates room to soften in the coming week.

Domestic Interest Rates (in percent)

Treasury Bills

Auction Date	91 days	182 days	364 days
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AUG 06	no sales	no sales	no sales
AUG 13	9.652	11.525	12.557
AUG 20	9.590	11.659	12.798
AUG 27	9.576	11.940	12.950
SEP 03	9.521	11.962	12.819
SEP 10	9.454	11.803	12.689
SEP 17	9.467	11.629	12.544
SEP 24	9.577	11.767	12.669
OCT 01	9.730	11.939	no sales

Source: Bureau of the Treasury

Prime Lending Rates of 14 Expanded Commercial Banks

Date of Survey	Average	Range
-----	-----	-----
AUG 02	12.8134	10.50 - 14.215
AUG 09	12.8318	10.50 - 14.215
AUG 16	13.0594	11.00 - 14.652
AUG 23	12.9746	11.00 - 14.590
AUG 29	12.9726	11.00 - 14.590
SEP 06	12.8884	11.00 - 14.590
SEP 13	12.8746	11.00 - 14.590
SEP 20	12.8561	11.00 - 14.467
SEP 28	12.8915	11.00 - 14.577
OCT 04	12.9743	11.00 - 14.730

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

The Philippine stock market drifted further down over the past two trading weeks in the absence of any significant market-spurring news. Equities traders also cited deepening worries over economic growth prospects in the aftermath of the September 11 terrorist attacks on the United States. By October 2, the Phisix had closed below the 1,100 mark for the first time since mid-September 1998. The Phisix closed at 1,088.44 on October 5, down 6.4% from its 1,162.85 closing level on September 21. (See Section II for detailed stock market data).

Internal problems in the Philippine Stock Exchange (PSE) did not help an already floundering market. PSE's board of governors ousted the bourse's president Ramon Garcia in its September 26 board meeting. The former president of the exchange had figured in an altercation with the developers of the Fort Bonifacio Global City over a property donation agreement which the latter had wanted to modify. The chairman of the property development company (who was also a member of the PSE board) had resigned earlier in reaction to the issuance of a "derogatory" press release by the exchange's president -- allegedly issued at a time when both groups were nearing a compromise agreement. A number of stock brokerage officials interviewed by the media were not happy with the ouster of Garcia, who had assumed the PSE presidency at a time when the exchange was struggling to shake off the stigma of the BW Resources stock market scandal. According to some reports, PSE's ex-president may contest the board decision. On the other hand, PSE officials said in more recent media interviews that they expected a new president onboard by the end of this month.

Philippine Stock Exchange Index (PHISIX) and
Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
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AUG 27	1287.48	241
28	1282.49	402
29	1270.57	232
30	1262.91	396

31	1265.44	477
SEP 03	1253.61	226
04	1252.58	359
05	1254.33	296
06	1283.74	525
07	1297.35	419
SEP 10	1297.19	406
11	1294.09	453
12	1241.39	624
13	1243.76	184
14	1236.42	294
SEP 17	1178.11	459
18	1206.38	258
19	1187.05	157
20	1177.53	227
21	1162.85	445
SEP 24	1145.09	366
25	1161.74	5,997 a/
26	1144.28	587
27	1141.59	260
28	1126.63	398
OCT 01	1125.06	228
02	1105.01	130
03	1089.28	278
04	1094.93	427
05	1088.44	535

a/ Of which more than P5.5 billion represented several block sales of Republic Cement Corp. (controlled by French firm Lafarge); analysts said there were reports that Republic Cement and another foreign-controlled local cement company were working towards consolidating domestic operations.

Source: Philippine Stock Exchange

PRES. MACAPAGAL-ARROYO SIGNS ANTI-MONEY LAUNDERING LAW

Culminating a month-long effort, President Macapagal-Arroyo signed into law a bill criminalizing money laundering on the eve of the September 30 OECD's Financial Action Task Force (FATF) deadline for passage of legislation. The legislation addresses the five areas of concern identified by the FATF by criminalizing money laundering; relaxing bank secrecy laws; establishing a suspicious transactions reporting system; granting administrative powers to freeze accounts; and allowing for mutual foreign assistance in the fight against money laundering. Passage of the legislation was a successful eleventh-hour effort driven by a desire to avoid international sanctions and by an effective Macapagal-Arroyo administration-led strategy to get the private sector and the Congress onboard. Passage of the legislation suspends the application of countermeasures until the FATF has an opportunity to review the law to ensure it meets the Group's criteria. Avoiding countermeasures does not remove the Philippines from the FATF's list of non-cooperative countries, which would depend on a review of the law's implementation.

AUGUST EXPORT UPDATE: SLUMP CONTINUES

The latest available statistics (publicly released on October 4) show that exports continue to perform poorly, hit hard by the economic slowdown in the United States and Japan and by the weak global demand for electronic products. According to the National Statistics Office (NSO), August 2001 export receipts dipped by 25.8% year-on-year to \$2.6 billion -- following on year-on-year declines posted in February (3.4%), March (4.0%), April (15.8%), May (11.4%), June (23.4%), and July (19.4%). Receipts from shipments of electronic components (down 40.1% in US\$ terms) also shrank year-on-year for a sixth month in a row. Cumulatively, January to August export revenues declined by 13% from 2000's comparable eight-month level, with receipts from electronics (60% of total export revenues) down 21.4%.

Merchandise exports to the United States (the Philippines' largest export market) accounted for over 28% of total export receipts during the first eight months of the year but suffered a 17% decline from 2000's

comparable level. With hopes dimming for a rebound in external markets during the rest of 2001, full-year export revenue -- which slowed to a single-digit growth rate in 2000 -- appears headed for a year-on-year contraction for the first time since 1985.

 PHILIPPINE MERCHANDISE EXPORTS
 (In US\$ Millions)

	January - August 2000	2001	Growth (%)
TOTAL EXPORTS	24,365.0	21,203.0	(13.0)
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Agro-Based Products	1,095.4	1,033.7	(5.6)
Forest Products	21.4	14.8	(30.8)
Mineral Products	433.3	361.0	(16.7)
Petroleum Products	247.7	165.0	(33.4)
Manufactures	21,922.2	18,925.0	(13.7)
Electronics Components	16,016.4	12,592.7	(21.4)
Others (mainly re-exports)	645.0	703.5	9.1

 Source: National Statistics Office

SEPTEMBER YEAR-ON-YEAR INFLATION SLOWS TO 6.1%

September 2001's consumer price index (CPI) increased by 0.2% month-on-month, the same rate posted in July. Although the service index accelerated from 0.2% to 0.3% and the housing and repairs index from 0.2% to 0.5%, September saw slower month-on-month increases for clothing (from 0.2% to 0.1%) and miscellaneous items. Food and utilities (up by 0.1% and 0.4%, respectively) posted the same month-on-month increases recorded in August. September 2001's 0.2% month-on-month CPI increase also represented a deceleration from that posted in September 2000 (0.5%).

On a year-on-year basis, inflation slowed to 6.1% in September -- the lowest recorded year-on-year rate since December 2000. Vis-à-vis August 2001's year-on-year CPI increase, all major indices except housing and repairs (the rate for which remained at 7.4%) posted slower year-on-year inflation rates: food and beverages (4.2% from 4.4%); fuel, light, and water (10.3% from 11.1%); services (11.3% from 11.4%); and miscellaneous items (4.1% from 4.3%).

Year-on-year inflation averaged 6.6% during the first nine months of 2001, within the government's 6-7% targeted range for the full year. Barring severe domestic or external pressures on food, fuel prices, and the local currency, year-on-year inflation is generally expected to slow further in the months ahead. Prices in the coming months also will be coming off a relatively high 2000 base (during which foreign exchange and oil price-related price adjustments had accelerated).

 PHILIPPINE CONSUMER PRICE INFLATION
 (IN %)

	Year-on-Year	Month-on-Month
	-----	-----
Jan 2000	2.6	0.5
Feb	3.0	0.4
Mar	3.4	0.1
April	3.7	0.2
May	4.2	0.4
Jun	3.9	0.7
Jul	4.3	0.5
Aug	4.6	0.7
Sep	4.6	0.5
Oct	4.9	0.7
Nov	6.0	1.2
Dec	6.6	0.7
Average		
Jan-Sep	3.8	
Jan-Dec 2000	4.4	
Jan 2001	6.9	0.8
Feb	6.7	0.2

Mar	6.7	0.1
Apr	6.7	0.3
May	6.5	0.1
Jun	6.7	1.0
Jul	6.8	0.6
Aug	6.3	0.2
Sep	6.1	0.2
Average		
Jan-Sep	6.6	

Source: National Statistics Office

GOP-U.S. FORGE AGREEMENT ON SHIPMENT OF HAZARDOUS WASTES

After six years of deliberations and negotiations, the U.S. and the Philippines signed an agreement on September 20, 2001 concerning the transboundary movement of hazardous wastes from the Philippines to the United States. This agreement is seen as economically beneficial and environmentally responsible, as well as in keeping with international environmental commitments. As a result, companies -- especially electronic and semiconductor firms -- may be allowed to ship hazardous wastes to the U.S., which has the appropriate technology to process these wastes. Since the Philippines does not have the capability to process hazardous wastes locally, these firms export their wastes to third countries or stockpile them. Thus, the bilateral agreement presents a convenient, less expensive, and more practical alternative for hazardous wastes disposal. The agreement enters into force when both sides complete domestic legal requirements. The Environmental Management Bureau is yet to issue an order implementing the provisions of the agreement.